

CITY OF GARNAVILLO
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

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CITY OF GARNAVILLO

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mark Priebe	Mayor	Jan. 2012
Lanny Kuhse	Mayor Pro tem	Jan. 2012
Lanny Kuehl	Council Member	Jan. 2012
Robert Bodish	Council Member	Jan. 2014
Carl Kuehl	Council Member	Jan. 2014
Lyndon Meyer	Council Member	Jan. 2014
Denise Schneider	Clerk/City Administrator	Indefinite
Kevin Clefisch	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Garnavillo, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Garnavillo's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As permitted by the Code of Iowa, the basic financial statements of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2010.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Garnavillo, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Garnavillo as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary if we had been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2010, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Garnavillo as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2011 on our consideration of the City of Garnavillo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Garnavillo's

primary government financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2010, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

August 8, 2011

Dietz, Donald & Company
Dietz, Donald and Company
FEIN 42-1172392

City of Garnavillo
P.O. Box 14
Garnavillo, Iowa 52049

Mark Priebe, Mayor

Phone: 563-964-2331

Denise Schneider, City Administrator/Clerk

E-mail: garnavillo@gmail.com

The City of Garnavillo provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements which follow. However, keep in mind that Chapter 11 of the Code of Iowa requires the City to have an audit of its basic financial statements once every four years because the City's population is between 700 and 2,000. Therefore, any financial information presented herein for the fiscal year ended June 30, 2010 has not been audited.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 157.6%, or approximately \$ 1.09 million from fiscal year 2010 to fiscal year 2011. Property tax increased approximately \$ 13,000, operating grants and contributions increased approximately \$ 196,000 and capital grants and contributions increased approximately \$ 782,000.

Disbursements of the City's governmental activities increased 145.8%, or approximately \$ 989,000 in fiscal year 2011 from fiscal year 2010. Public works, community and economic development, and capital projects disbursements increased approximately \$ 55,000, \$ 193,000 and \$ 748,000, respectively.

The City's total cash basis net assets increased 3.2%, or approximately \$ 15,000, from June 30, 2010 to June 30, 2011. Of this amount the assets of the governmental activities decreased approximately \$ 19,000 and the assets of the business type activities increased approximately \$ 34,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased

from a year ago, decreasing from approximately \$ 358,000 to approximately \$ 339,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Years Ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 105	125
Operating grants and contributions	277	83
Capital grants and contributions	803	21
General receipts:		
Property tax	323	296
Local option sales tax	57	53
Unrestricted interest on investments	3	4
Note proceeds	53	-
Other general receipts	28	58
Total receipts	<u>1,649</u>	<u>640</u>
Disbursements:		
Public safety	88	96
Public works	247	192
Health and social services	2	1
Culture and recreation	75	72
Community and economic development	193	1
General government	87	73
Debt service	107	123
Capital projects	869	121
Total disbursements	<u>1,668</u>	<u>679</u>
Change in cash basis net assets	(19)	(39)
Cash basis net assets beginning of year	<u>358</u>	<u>397</u>
Cash basis net assets end of year	<u>\$ 339</u>	<u>358</u>

The City's total receipts for governmental activities increased 157.6% or approximately \$ 1.09 million. The total cost of all programs and services increased approximately \$ 989,000, or 145.8%, with two new federal grant programs being substantially completed during the year.

Receipts from the two Community Block Grant Programs totaled approximately \$ 987,000.

The City increased property tax rates for fiscal year 2011 an average of 6 percent. This increase, raised the City's property tax receipts approximately \$ 13,000 in fiscal year 2011. The property tax receipts are budgeted to increase \$ 8,000, based on a 3.5% increase in assessed valuations.

The cost of all governmental activities this year was approximately \$ 1.668 million compared to approximately \$ 679,000 last year. However, as shown in the Statement of Activities and Net Assets on page 16, the amount taxpayers ultimately financed for these activities was only \$ 484,000 because some of the cost was paid by those directly benefited from the programs (\$105,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$ 1.080 million). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service increased in fiscal year 2011 from approximately \$ 229,000 to approximately \$ 1.185 million, principally due to receiving two Community Development Block Grants (\$ 802,680 for a sewer project and \$ 183,971 for housing renovation). The City paid for the remaining "public benefit" portion of governmental activities (\$ 484,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest, note proceeds and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 190	181
Sewer	151	145
General receipts:		
Bond proceeds	1	-
Total receipts	342	326
Disbursements:		
Water	170	150
Sewer	137	113
Total disbursements	307	263
Change in cash basis net assets	35	63
Cash basis net assets beginning of year	117	54
Cash basis net assets end of year	\$ 152	117

The business type activities receipts for the fiscal year were approximately \$ 341,000 compared to approximately \$ 326,000 last year. The increase was due primarily to increases in water and sewer rates which were implemented during the year. The cash balance increased approximately \$ 35,000. Total disbursements for the fiscal year increased 16.7% to approximately \$ 307,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Garnavillo completed the year, its governmental funds reported a combined fund balance of \$ 339,120, a decrease of nearly \$ 19,000 below last year's total of \$ 357,964. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 27,489 from the prior year to \$ 159,159. Receipts increased more than disbursements, but that includes \$ 53,000 borrowed to finance the purchase of a public works truck. Public works disbursements increased \$ 49,808 due to the purchase of the aforementioned truck.

The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$ 14,007 to \$ 101,774. This cash balance, along with incremental property tax generated from the increased taxable valuation in the district, will be used to redeem bonds and related interest issued to improve infrastructure within the district.

The Special Revenue, Urban Renewal Fund was established in the current fiscal year to account for grant funds to renovate housing in the city. The deficit balance of \$ 6,410 occurred because federal funds are not released until cash is actually disbursed.

The Capital Projects Fund was established in the current fiscal year to account for a major sewer project. The project is being primarily funded with a Community Development Block Grant.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased \$ 20,596 to \$ 92,958, due primarily to rate increases designed to meet future debt service requirements.

The Enterprise, Sewer Fund cash balance increased \$ 13,539 to \$ 58,629, due primarily to rate increases designed to meet future debt service requirements.

BUDGETARY HIGHLIGHTS

During the year, the City amended its budget once. The amendment

was approved May 10, 2011 and resulted in an increase in community and economic development disbursements of \$ 234,000 related to the award of a housing renovation block grant.

The City's receipts were \$ 229,896 less than budgeted, due primarily to the City receiving less in grant proceeds than anticipated.

The City's disbursements were \$ 354,541 less than budgeted, due primarily to the sewer project proceeding slower than anticipated.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$ 966,000 in long-term debt outstanding, compared to \$ 1,048,981 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2011	2010
General obligation bonds	\$ 484	525
General obligation notes	26	28
Revenue bonds	456	467
Revenue notes	-	29
Total	\$ 966	1,049

The City borrowed \$ 56,000 for the purchase of a new public works truck in fiscal year 2011. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 510,000 is significantly below its constitutional debt limit of \$ 1.5 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Garnavillo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities.

The City has experienced little growth recently. In fact, the population counts in both the 2000 and 2010 censuses were identical. Taxable valuations increased 3.1% from January 1, 2009 to January 1, 2010.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are approximately \$ 1.6 million, a decrease of 26% under the final fiscal year 2011 budget. A decrease in federal grants accounts for most of this decrease. Budgeted disbursements are expected to decrease approximately \$ 715,000. Decreases in federally funded sewer and housing renovation projects represent the largest decreases.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 12,000 by the close of fiscal year 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Denise Schneider, City Clerk, 106 East Chestnut Street, Garnavillo, Iowa 52049-0014.

BASIC FINANCIAL STATEMENTS

CITY OF GARNAVILLE
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2011

Functions/Programs: Governmental activities:	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Public safety	\$ 87,537	23,347	11,570	-
Public works	247,217	61,351	72,387	-
Health and social services	1,554	-	-	(113,479)
Culture and recreation	75,121	17,131	9,032	(1,554)
Community and economic development	193,560	-	183,971	(48,958)
General government	86,746	2,815	-	(9,589)
Debt service	106,958	-	-	(83,931)
Capital projects	869,432	-	-	(106,958)
Total governmental activities	1,668,125	104,644	276,960	(56,752)
Business type activities	169,824	189,655	-	(483,841)
Water	137,352	150,891	-	-
Sewer	307,176	340,546	-	-
Total business type activities	\$ 1,975,301	445,190	276,960	33,370
Total				(483,841)
General Receipts: Property and other city tax levied for:				
General purposes				192,982
Debt service				22,474
Tax increment financing				107,184
Local option sales tax				57,483
Unrestricted interest on investments				3,495
Bond and note proceeds				53,000
Miscellaneous				27,135
Sale of assets				1,244
Total general receipts				464,997
Change in cash basis net assets				(18,844)
Cash basis net assets beginning of year				357,964
Cash basis net assets end of year				\$ 339,120
Cash Basis Net Assets				
Restricted expendable:				
Streets				24,777
Sewer construction				56,437
Debt service				102,338
Other purposes				2,783
Unrestricted				152,785
Total cash basis net assets				\$ 339,120

See notes to financial statements.

CITY OF GARNAVILLO
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2011

	Special Revenue					Total
	General	Urban Renewal Tax Increment	Urban Renewal	Capital Projects	Nonmajor	
Receipts:						
Property tax	\$ 152,344	-	-	-	63,112	215,456
Tax increment financing	-	107,184	-	-	-	107,184
Other city tax	57,483	-	-	-	-	57,483
Licenses and permits	1,615	-	-	-	-	1,615
Use of money and property	6,335	-	-	-	-	6,335
Intergovernmental	51,632	-	183,971	802,680	72,387	1,110,670
Charges for services	61,351	-	-	-	-	61,351
Miscellaneous	28,984	-	2,425	3,769	-	35,178
Total receipts	359,744	107,184	186,396	806,449	135,499	1,595,272
Disbursements:						
Operating:						
Public safety	78,207	-	-	-	9,330	87,537
Public works	161,103	-	-	-	86,114	247,217
Health and social services	1,554	-	-	-	-	1,554
Culture and recreation	71,033	-	-	-	4,088	75,121
Community and economic development	754	-	192,806	-	-	193,560
General government	73,613	-	-	-	13,133	86,746
Debt service	-	79,252	-	-	27,706	106,958
Capital projects	-	41,939	-	827,493	-	869,432
Total disbursements	386,264	121,191	192,806	827,493	140,371	1,668,125
Deficiency of receipts under disbursements	(26,520)	(14,007)	(6,410)	(21,044)	(4,872)	(72,853)
Other financing sources:						
Note proceeds	53,000	-	-	-	-	53,000
Sale of capital assets	1,009	-	-	-	-	1,009
Total other financing sources	54,009	-	-	-	-	54,009
Net change in cash balances	27,489	(14,007)	(6,410)	(21,044)	(4,872)	(18,844)
Cash balances beginning of year	131,706	115,781	-	77,481	32,996	357,964
Cash balances end of year	\$ 159,195	101,774	(6,410)	56,437	28,124	339,120
Cash Basis Fund Balances:						
Restricted	-	101,774	-	56,437	28,124	186,335
Committed	26,577	-	(6,410)	-	-	20,167
Unassigned	132,618	-	-	-	-	132,618
Total cash basis fund balances	\$ 159,195	101,774	(6,410)	56,437	28,124	339,120

See notes to financial statements.

CITY OF GARNAVILLO
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 189,655	150,891	340,546
Operating disbursements:			
Business type activities	131,422	108,431	239,853
Excess of operating receipts over operating disbursements	58,233	42,460	100,693
Non-operating receipts (disbursements):			
General obligation bond proceeds	765	0	765
Debt service	(38,402)	(28,921)	(67,323)
Net non-operating receipts (disbursements)	(37,637)	(28,921)	(66,558)
Excess of receipts over disbursements	20,596	13,539	34,135
Cash balances beginning of year	72,362	45,090	117,452
Cash balances end of year	\$ 92,958	58,629	151,587
Cash Basis Fund Balances			
Unassigned	\$ 92,958	58,629	151,587

See notes to financial statements.

CITY OF GARNAVILLO

Note to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Garnavillo is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1907 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

Except as discussed below for financial reporting purposes, the City of Garnavillo has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Excluded Component Units

The Garnavillo First Responders, the Garnavillo Firemen's Association and the Garnavillo Cemetery Association were established under Chapter 504 of the Code of Iowa, and are legally separate from the City, but have the potential to provide specific benefits to or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and Clayton County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City's primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's primary government nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Urban Renewal Fund is used to account for the proceeds of a Community Development Block Grant to be used for housing renovation.

The Capital Projects Fund is used to account for Community Development Block Grant and other receipts to be used for the payment of construction costs of a major sewer improvement project.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Garnavillo maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

In governmental funds when a disbursement can be paid using restricted or unrestricted resources, the City's policy is generally to pro rate the disbursement between the restricted fund balance and the less-restrictive classifications-committed, assigned and then unassigned balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used for specific purposes pursuant to constraints formally imposed by the Council through ordinance or resolution approved prior to year end.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit

at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Cash Basis Fund Balances

The detail of the Governmental Funds, Cash Basis Fund Balances is as follows:

	General Fund	Urban Renewal Tax Increment Fund	Urban Renewal Fund	Capital Projects Fund	Others Funds	Total
Fund balances:						
Restricted for:						
Streets	\$ -	-	-	-	24,777	24,777
Sewer construction	-	-	-	56,437	-	56,437
Debt service	-	101,774	-	-	564	102,338
Other purposes	-	-	-	-	2,783	2,783
Committed for:						
Fire Department						
acquisitions	6,990	-	-	-	-	6,990
Emergency Medical						
Services acquisitions	7,016	-	-	-	-	7,016
Library acquisitions	12,571	-	-	-	-	12,571
Unassigned	132,618	-	(6,410)	-	-	126,208
Total Fund balances	\$ 159,195	101,774	(6,410)	56,437	28,124	339,120

(4) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 42,000	19,075	12,000	13,680	54,000	32,755
2013	46,000	17,605	12,000	13,320	58,000	30,925
2014	59,000	15,945	13,000	12,960	72,000	28,905
2015	60,000	13,775	13,000	12,570	73,000	26,345
2016	49,000	11,535	13,000	12,180	62,000	23,715
2017-2021	187,000	27,015	73,000	54,660	260,000	81,675
2022-2026	55,000	6,870	84,000	43,110	139,000	49,980
2027-2031	12,000	360	98,000	29,730	110,000	30,090
2032-2036	-	-	113,000	14,130	113,000	14,130
2037	-	-	25,000	750	25,000	750
Total	\$ 510,000	112,180	456,000	207,090	966,000	319,270

The Code of Iowa requires that principal and interest on general obligation bonds and notes be paid from the Debt Service Fund. However, \$ 11,822 of general obligation bond principal and interest was paid from the Enterprise, Water Fund; and \$ 49,865 of general obligation bond principal and interest was paid from the Special Revenue, Urban Renewal Tax Increment Fund.

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$ 500,000 of water revenue bonds issued in August 2007. Proceeds from the notes provided financing for the construction of water main extensions. The bonds are payable solely from water customer net receipts and are payable through 2037. Annual principal and interest payments are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$ 663,090. For the current year, principal and interest paid and total customer net receipts were \$ 25,010 and \$ 58,233, respectively.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit

pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2011 were \$ 13,798, equal to the required contributions for the year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active and no retired members in the plan.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$ 716 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$ 30,553 and plan members eligible for benefits contributed \$ 738 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and paid time off (PTO) hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned paid time off and vacation hours payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 3,000
PTO	<u>9,000</u>
Total	<u>\$ 12,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 1,421 during the year ended June 30, 2011.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial coverage in any of the past three fiscal years.

(10) Deficit Balance

The Special Revenue, Urban Renewal Fund had a deficit balance of \$ 6,410 at June 30, 2011. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of federal grants.

(11) Commitments

The City let contracts totaling \$ 774,525 in connection with a sewer improvement project. This project will be financed with a \$ 908,150 Community Development Block Grant. At June 30, 2011, \$ 681,004 had been disbursed under these contracts.

The City had let a contract of \$ 12,000 for water tower maintenance. At June 30, 2011, \$ 6,000 was still owed on this contract.

(12) Non-cash Transactions

The City received a trade-in allowance on its old mower of \$ 9,393 reducing the cash price of the new mower from \$ 15,243 to \$ 5,850, the amount recognized in the financial statements under the cash basis of accounting.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GARNAVILLO
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES--
BUDGET AND ACTUAL (CASH BASIS)--ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2011

	Governmental Funds		Proprietary Funds		Total	Budgeted Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
Receipts:								
Property tax	\$ 215,456		-		215,456	198,671	198,671	16,785
Tax increment financing	107,184		-		107,184	107,016	107,016	168
Other city tax	57,483		-		57,483	56,199	56,199	1,284
Licenses and permits	1,615		-		1,615	1,625	1,625	(10)
Use of money and property	6,335		-		6,335	25,015	26,025	(19,690)
Intergovernmental	1,110,670		-		1,110,670	1,076,953	1,315,653	(204,983)
Charges for service	61,351		340,546		401,897	443,600	443,600	(41,703)
Miscellaneous	35,178		-		35,178	2,250	16,925	18,253
Total receipts	1,595,272		340,546		1,935,818	1,911,329	2,165,714	(229,896)
Disbursements:								
Public safety	87,537		-		87,537	100,317	100,317	12,780
Public works	247,217		-		247,217	265,989	279,489	32,272
Health and social services	1,554		-		1,554	1,554	1,554	-
Culture and recreation	75,121		-		75,121	64,930	83,945	8,824
Community and economic development	193,560		-		193,560	754	234,754	41,194
General government	86,746		-		86,746	119,652	119,652	32,906
Debt service	106,958		-		106,958	129,388	133,488	26,530
Capital projects	869,432		-		869,432	1,043,148	1,043,148	173,716
Business type activities	-		307,176		307,176	368,495	343,495	36,319
Total disbursements	1,668,125		307,176		1,975,301	2,094,227	2,339,842	364,541
Excess (deficiency) of receipts over (under) disbursements	(72,853)		33,370		(39,483)	(182,898)	(174,128)	134,645
Other financing sources, net	54,009		765		54,774	-	53,000	1,774
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(18,844)		34,135		15,291	(182,898)	(121,128)	136,419
Balances beginning of year	357,964		117,452		475,416	457,754	475,416	-
Balances end of year	\$ 339,120		\$ 151,587		\$ 490,707	\$ 274,856	\$ 354,288	\$ 136,419

See accompanying independent auditor's report and notes to required supplementary information - budgetary reporting.

CITY OF GARNAVILLO
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 245,615. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF GARNAVILLO
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2011

	<u>Special Revenue</u>			
	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Debt Service</u>	<u>Total</u>
Receipts:				
Property tax	\$ -	40,638	22,474	63,112
Intergovernmental	72,387	-	-	72,387
Total receipts	72,387	40,638	22,474	135,499
Disbursements:				
Operating:				
Public safety	-	9,330	-	9,330
Public works	67,464	18,650	-	86,114
Culture and recreation	-	4,088	-	4,088
General government	-	13,133	-	13,133
Debt service	-	-	27,706	27,706
Total disbursements	67,464	45,201	27,706	140,371
Excess (deficiency) of receipts over (under) disbursements	4,923	(4,563)	(5,232)	(4,872)
Cash balances beginning of year	19,854	7,346	5,796	32,996
Cash balances end of year	\$ 24,777	2,783	564	28,124
Cash Basis Fund Balances:				
Restricted for:				
Streets	\$ 24,777	-	-	24,777
Debt service	-	-	564	564
Other purposes	-	2,783	-	2,783
Total cash basis fund balances	\$ 24,777	2,783	564	28,124

See accompanying independent auditor's report.

CITY OF GARNAVILLO
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	In
General obligation bonds:								
Water improvement	Aug 9, 2007	3.00%	\$ 177,000	160,235	765	7,000	154,000	
Corporate purpose	Aug 15, 2008	3.40-4.50%	400,000	365,000	0	35,000	330,000	
Total				\$ 525,235	765	42,000	484,000	
General obligation notes:								
Corporate purpose	Nov 15, 2005	4.00%	\$ 260,000	28,320	0	28,320	0	
Vehicle acquisition	Oct 28, 2010	3.00	53,000	0	53,000	27,000	26,000	
Total				\$ 28,320	53,000	55,320	26,000	
Revenue bonds:								
Water	Aug 9, 2007	3.00%	\$ 500,000	\$ 467,000	0	11,000	456,000	
Revenue notes:								
Sewer	Dec 23, 2003	5.00%	\$ 69,475	28,426	0	28,426	0	

See accompanying independent auditor's report.

CITY OF GARNAVILLO
BOND AND NOTE MATURITIES
June 30, 2011

Year Ending June 30,	General Obligation Bonds			Revenue Bonds		
	Water Improvement		Corporate Purpose	Water		Total
	Interest Rates	Amount		Interest Rates	Amount	
2012	3.00%	\$ 7,000	3.60%	3.00%	\$ 12,000	42,000
2013	3.00	8,000	3.80	3.00	12,000	43,000
2014	3.00	8,000	4.00	3.00	13,000	48,000
2015	3.00	8,000	4.10	3.00	13,000	48,000
2016	3.00	9,000	4.20	3.00	13,000	49,000
2017	3.00	9,000	4.30	3.00	14,000	54,000
2018	3.00	9,000	4.40	3.00	14,000	54,000
2019	3.00	9,000	4.50	3.00	15,000	59,000
2020	3.00	10,000	-	3.00	15,000	10,000
2021	3.00	10,000	-	3.00	16,000	10,000
2022	3.00	10,000	-	3.00	16,000	11,000
2023	3.00	11,000	-	3.00	17,000	11,000
2024	3.00	11,000	-	3.00	17,000	11,000
2025	3.00	11,000	-	3.00	18,000	12,000
2026	3.00	12,000	-	3.00	18,000	12,000
2027	3.00	12,000	-	3.00	19,000	-
2028	-	-	-	3.00	20,000	-
2029	-	-	-	3.00	20,000	-
2030	-	-	-	3.00	21,000	-
2031	-	-	-	3.00	21,000	-
2032	-	-	-	3.00	22,000	-
2033	-	-	-	3.00	23,000	-
2034	-	-	-	3.00	23,000	-
2035	-	-	-	3.00	24,000	-
2036	-	-	-	3.00	25,000	-
2037	-	-	-	-	-	-
Total		<u>\$ 154,000</u>			<u>\$ 456,000</u>	<u>\$ 484,000</u>
General Obligation Notes						
Vehicle Acquisition						
Issued Oct 28, 2010						
Year	Interest	Amount				
Ending	Rates					
June 30,						
2012	3.00%	\$ -				
2013	3.00	3,000				
2014	3.00	11,000				
2015	3.00	12,000				
Total		<u>\$ 26,000</u>				

See accompanying independent auditor's report.

CITY OF GARNAVILLO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRI-083 10-HSG-024	\$ 750,673 184,062 <hr/> 934,735
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DRA	4,371 <hr/> \$ 939,106

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Garnavillo and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Garnavillo, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 8, 2011. Our report on the primary government financial statements, which were prepared in conformity with an other basis of accounting, expressed qualified opinions since we were not able to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Garnavillo's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Garnavillo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Garnavillo's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct

misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Garnavillo's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Garnavillo's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Garnavillo's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of

Garnavillo and other parties to whom the City of Garnavillo may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Garnavillo during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

August 8, 2011

Dietz, Donald & Company
Dietz, Donald and Company
FEIN 42-1172392

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Garnavillo, Iowa, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Garnavillo's major federal program for the year ended June 30, 2011. The City of Garnavillo's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the City of Garnavillo's management. Our responsibility is to express an opinion on the City of Garnavillo's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Garnavillo's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Garnavillo's compliance with those requirements.

In our opinion, the City of Garnavillo complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the City of Garnavillo is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Garnavillo's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Garnavillo's internal control over compliance.


A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Garnavillo's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Garnavillo's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Garnavillo and other parties to whom the City of Garnavillo may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa
August 8, 2011


Dietz, Donald and Company
EIN 42-1172392

CITY OF GARNAVILLO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part I - Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) No significant deficiencies relating to the audit of the primary government financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
- (c) No instances of noncompliance material to the primary government financial statements of the City of Garnavillo were disclosed during the audit.
- (d) No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228-Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- (i) The City of Garnavillo did not qualify as a low-risk auditee.

CITY OF GARNAVILLO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part II - Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses were identified.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III - Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses were identified.

Part IV - Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - Disbursements for the year ended June 30, 2011, did not exceed the amounts budgeted.

IV-B-11 Questionable Disbursements - We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions - Business Transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Robert Bodish, Council Member, owner Top Gun Customs and Collision Center	Fire truck repairs	\$ 1,421

CITY OF GARNAVILLO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Member do not appear to represent a conflict of interest since total transactions were less than \$ 2,500 during the fiscal year.

- IV-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-11 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-11 Revenue Bonds - No instances of noncompliance with the revenue bond resolution were noted.
- IV-I-11 Payment of General Obligation Bonds and Notes - Certain general obligation bonds and notes were paid from the Special Revenue, Urban Renewal Tax Increment Fund and the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation - The City should transfer from the Special Revenue, Urban Renewal Tax Increment Fund and the Enterprise, Water Fund for future funding contributions. Payment of the bonds and notes should then be disbursed from the Debt Service Fund.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

- IV-J-11 Financial Condition - The Special Revenue, Urban Renewal Fund had a deficit balance of \$ 6,410 at June 30, 2011.

CITY OF GARNAVILLO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Recommendation - The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response - The deficit was due to housing renovation costs prior to receipt of federal grant proceeds. The deficit was subsequently eliminated.

Conclusion - Response accepted.